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UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service

COMMENTS ON THE ECONOMIC AND TOBACCO PRODUCT SITUATION

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For a long number of years favorable economic conditions have contributed to an expanding market for tobacco products, particularly cigarettes. The U. S. economy has been moving forward for over 20 years with only minor disruptions in the upward trend. Significantly, real per capita income in terms of constant prices has, despite rising cost of living, continued to move upward in recent years.

Another important contributing factor to a favorable economic climate has been sustained consumer income and spending, particularly during recent recessionary periods. Significant, too, particularly from the standpoint of cigarette consumption, is the fact that incomes are distributed over a large segment of our population. Also, these incomes are adequate to afford reasonable standards of living.

It is generally assumed that a severe and widespread economic depression would adversely affect cigarette usage. However, minor downturns of short duration appear to have little effect on total sales of cigarettes. Minor national economic downturns may be particularly severe in local areas and, as a result, cigarette sales in these areas and under these circumstances adversely affected.

Currently there is widespread speculation with respect to economic activity and levels of employment for the year ahead. For the most part speculation is concerned with whether or not we will move forward

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economically and, if so, at what rate or whether we will bobble along at or near current levels.

It is generally concluded that any significant decline in economic activity or in gross national product in the immediate future is unlikely, and that for the longer pull the economic growth rate will improve significantly. The high level of consumer incomes and the spending mood of consumers will help in maintaining economic activity at high levels. Also, the absence of excessive inventory accumulations will preclude the painful economic impacts incident to inventory liquidations.

Industrial production has held up well and should continue at relatively high levels. Unemployment, currently a little under 6 percent, is a difficult and troublesome problem, and the prospect for any significant reduction in the rate of unemployment is not encouraging. In this connection analysts are contending that an annual economic growth rate of 5 percent is necessary to absorb contemplated additions to the labor force and to assure rather full employment. The significance of this is emphasized by the fact that the average rate of growth in recent years has been about 3 percent.

Tax structures and rates and considerations incident to review and modifications should not be overlooked in appraising or projecting economic growth. Also, the change in depreciation rates on capital investments announced some months ago should promote economic activity by encouraging expenditures in this area.

Automation is another important, and perhaps essential, factor in economic development. Automation makes possible the realization of technological advances that could not be accomplished otherwise. These

advances should, in the long run, increase employment opportunities and provide higher average incomes.

Cigarette Consumption

During the first 7 months of 1962 cigarette consumption, as shown by Internal Revenue statistics, was up 1.4 percent over the comparable 1961 period. July removals and preliminary reports for August lend added assurance to predictions that 1962 consumption will exceed 1961 levels. The Department's forecast for 1962 consumption or taxpaid removals of 497.5 billion cigarettes is about 1.9 percent above 1961 consumption levels. The attainment of this level of consumption for 1962 will require an increase of about 3 percent for the remaining 5 months of 1961.

In this connection, and in appraising the possible attainment of these production levels, we are reminded that the fourth quarter of 1961 was an exceptionally good quarter. Predicated on predicted consumption levels for 1962 of 497.5 billion cigarettes, the per capita rate will approximate the 1961 level of 3,986 cigarettes per person 15 years and older.

In appraising cigarette consumption it is important to note that substantial gains in consumption levels and per capita rate have been experienced, with minor exceptions, over a long period of years (Table 1 attached). This is an important consideration and perhaps a contributing factor to the possible decline in the current annual increase in cigarette consumption.

However, the tobacco-health issue is continuing and has received widespread attention during the year. The United Kingdom, citing the

position or statement of the Royal College of Physicians, triggered a round of charges and countercharges with respect to this issue. As a result of these developments, the President announced that the U. S. Public Health Service would set up a factfinding commission to study the tobacco-health issue. The committee is charged with responsibility for making an objective and comprehensive review of the tobacco-health situation and also for proposing specific Government action if needed. A report by the committee is scheduled for issuance in 1963.

Most observers agree that the publicity resulting from news stories and reports dealing with the health issue has resulted in increasing apprehension on the part of the general public. This issue and the impact it will have on smoking habits, and consequently on cigarette consumption, is complicated and difficult, particularly from the standpoint of statistical analyses and conclusions. This relates in no small measure to the lack of adequate data.

It is generally concluded that in the absence of this issue we would contemplate a continuation of the substantial increase in cigarette usage experienced in recent years. Economic conditions are expected to continue favorable during the next few years. Population growth will result in a sharp increase in potential cigarette users. The youth population increase resulting from the postwar baby boom is now arriving which will correct an abnormal, and from the standpoint of maximum cigarette consumption, an unfavorable population composition. However, as indicated earlier, it is difficult to evaluate and properly weight these favorable and important factors as related to cigarette consumption under currently prevailing circumstances.

We estimate that there are approximately 63 million regular cigarette smokers, or approximately one-half of the population of 15 years and over. States with low average per capita income perhaps will show the greatest economic growth rate within the next few years. States with lower per capita consumer income generally have lower per capita cigarette usage. The increasing proportion of our population enjoying incomes high enough to afford items such as cigarettes should, under normal circumstances, stimulate cigarette consumption.

As previously pointed out, the rate of gain in the foreseeable future is "iffy", but at the moment we do not anticipate reductions in overall consumption. For the immediate future population in the smoking age group, and accordingly the number of potential smokers, will increase at the rate of 1-1/2 to 2 percent per year. (Table 4 attached).

Also, we are entering a period of more favorable age composition from the standpoint of cigarette usage. This results from the arrival of postwar babies. The significance of this is indicated by the fact that the age group 20 to 39 has the highest percentage of cigarette smokers.

The more favorable age composition, together with the substantial additions to the number of potential smokers, should sustain modest increases in cigarette consumption. Certainly, if we are to dig in and fight a cold war, these additions, particularly to the age group having the highest percentage of smokers, should serve as a buffer or hedge against possible declines in cigarette usage.

Cigars

Annual cigar consumption increased from about 6 billion in 1957 to 7 billion in 1960. Consumption declined slightly in 1961, but is moving forward in 1962. Further gradual gains in consumption are contemplated in 1963.

There is a question with respect to the 1961 experience. This "decline" possibly could be explained in terms of inventory reductions or lag in buying in anticipation of the removal of State tax in New York and Michigan. The demand for cigars is relatively elastic and thus sensitive to price. This no doubt was an important consideration incident to the tax removed in New York and Michigan. Consumption in these States was being curtailed.

Per capita cigar consumption, per male 18 years and over, in 1962 is estimated at 124, up slightly from 1961, but below 1960 and 1959 (Table 5 attached). In terms of numbers, the per capita rate has increased around 10 percent in the past 11 or 12 years.

While the number of cigars smoked has increased in recent years, the amount of tobacco consumed in the form of cigars has not, because of the smaller dimensions. In terms of pounds of tobacco represented in the cigars, the per capita consumption has decreased 10 percent.

However, from a revenue standpoint, you are primarily interested in numbers and price. Growers perhaps would have a valid basis for disagreeing with this point of view. The average retail price has been reduced about 1/2 cent per cigar during the 1957-1960 period. Averaging down of retail sales prices will have an adverse effect on tax receipts.

It does not seem likely that the embargo on Cuban leaf and its effect on the leaf used in cigars will cause many smokers to give up cigars. Cuban tobacco still is available, from inventories on hand at the time of announcement of the embargo, and is being used in the manufacture of cigars. Prior to the current Cuban difficulties, over half of our cigars contained Cuban leaf, but manufacturers gradually are substituting other tobaccos. Colombian, Dominican, and Brazilian imports are being used in increasing quantities.

Smoking Tobacco

Consumption of smoking tobacco appears to be declining again in 1962, but probably will be slightly above the low point reached in 1957. In view of the generally favorable outlook for consumer income, about the best that can be expected is that smoking tobacco consumption will remain unchanged. Smoking tobacco is more economical than cigarettes, and thus favorable economic conditions mean less smoking of roll-your-own cigarettes.

Chewing Tobacco and Snuff

Consumption of chewing tobacco and snuff also is down slightly in comparison with last year. No increase is anticipated and prospects are that consumption will decline slightly again next year.

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